



PAYFLEX®

PARTNERS
FOR HEALTH

Tax-Advantaged
Accounts

**Health Savings
Account (HSA)**
September 8, 2015

State of Tennessee
Local Education & Local Government

Today's presentation will cover:

- **Health Savings Account (HSA)**
- **Eligibility and Contributions**
- **Mobile App**
- **Investments**
- **Tax Reporting**
- **Enrollment and Funding**
- **Website**
- **Next Webinar 9/15; File and Error Reporting!**
Have your file experts join the call!

What's a Health Savings Account (HSA)?

It is an account employees may contribute to with pretax money deducted from their paycheck. They use it for eligible health care expenses.

- Helps reduce their taxable income and increases their take home pay!
- Use funds for current and future healthcare costs.
- Unused funds roll over from year to year.
- Account funds are used for the employee, their spouse, and their tax dependents.
- Their HSA stays with them, even if they switch employers, change insurance plans, or retire.
- Contribute pre-tax and post-tax dollars.
- If they have an HSA elsewhere, they can transfer the balance to their new HSA.
- Their money can earn interest plus they can enjoy investment options.
- Benefit from employer contributions (local government and local education employees should check if their agency will provide funding for their HSA).

HSA Establishment Date

HSA Establishment Date

- The “Establishment Date” (date HSA opened) of an HSA is important because an accountholder can only receive tax-free distributions from his/her HSA to pay or be reimbursed for qualified medical expenses which were incurred as of the date the HSA is considered “established” (See IRS Notice 2004-02; Q&A 26).

No Longer in CDHP

When No Longer in CDHP

- Employee can no longer contribute to HSA
- Employee keeps funds to use for qualified medical expenses
- Balance Options:
 - Maintain HSA with PayFlex for a monthly fee of \$4.00
 - Transfer to another HSA administrator
 - Close HSA, roll funds to another HSA administrator within 60 days
 - Close HSA, receive funds subject to taxes and penalties

Tax Relief and Health Care Act of 2006 (H.R. 6111)

Full-Year contribution for mid-year hires with CDHP

Permits a full-year HSA contribution for an employee who joins CDHP in a month other than January. However, the employee must complete the IRS testing period by remaining in the CDHP for the rest of the current year including the next 12 consecutive months, or may be subject to taxes and IRS penalties.

Transfer of existing IRA funds into HSA's

Allows employee to take one-time, tax-free, irrevocable rollover from an IRA to an HSA. A rollover from an IRA does count towards the individuals contribution limit for that year.

Dependents

Dependents

- HSA funds may be used for out-of-pocket medical expenses for tax-dependent (up to age 19 or, if full-time student, age 24), meaning those dependents that are claimed on the accountholder's taxes.
- When the child is no longer a tax-dependent but on the accountholder's CDHP (through age 26), then the child's out-of-pocket medical expenses cannot be paid with the HSA.
 - The older covered dependent may open their own HSA and contribute up to the family max.

More on Age 26 Dependent

- Health plans must cover adult dependents until they reach the age of 26. They do not have to be college students. But the tax law did not change.
- The employee could have under their health plan a dependent adult who is not a dependent for tax purposes. That means that they'll pay a penalty plus taxes if they use the pretax dollars from their HSA to pay health expenses for their older covered dependent.
- The older covered dependent may open their own HSA and contribute up to the family max.

Eligibility and Contributions

Are you eligible for an HSA?

To elect an HSA, the employee must be enrolled in a qualified consumer-driven health plan (CDHP).

In addition:

- They can't have other health coverage that pays for out-of-pocket expenses before they meet their plan deductible.
- They **or their spouse** can't have a Flexible Spending Account (FSA) or a Health Reimbursement Account (HRA) in the same year of their HSA.
- They can't have Medicare, TRICARE, or have been treated by Veterans Administration (VA) in the last three months.
- They can't be claimed as a dependent by someone else.

Are you eligible for an HSA?

Other rules if your present FSA is with Grace Period and runs Calendar Year:

- **Example:** If your FSA plan runs 1/1/15 – 12/31/15 and the FSA is with a grace period allowing an employee to incur claims until 3/15/16 and...
 - their FSA balance is zero on 12/31/15, they are **eligible** to open an HSA on 1/1/16 if covered by the CDHP.
 - their FSA balance is not at zero on 12/31/15, they are **not eligible** to open an HSA until the first of the month following the grace period, or 4/1/16 if covered by the CDHP.
 - NOTE: Any funds posted in their HSA cannot be used for claims incurred prior to 4/1/16 or the date their HSA opened.

Are you eligible for an HSA?

Other rules if your present FSA is with Grace Period and runs off Calendar Year:

- **Example:** If your FSA plan runs 10/1/15 – 9/30/16 and the FSA is with a grace period allowing an employee to incur claims until 12/15/16 and...
 - their FSA balance is zero on 9/30/16, they are **eligible** to open an HSA on 10/1/16 if covered by the CDHP.
 - their FSA balance is not at zero on 9/30/16, they are **not eligible** to open an HSA until the first of the month following the grace period, or 1/1/17 if covered by the CDHP.
 - NOTE: Any funds posted in their HSA cannot be used for claims incurred prior to 1/1/17 or the date their HSA opened.
- **NOTE:** For FSA plans where grace period is less than examples shown, employees are not eligible to open an HSA until the first of the month following that grace period.

HSA Contributions

Each year, the Internal Revenue Service (IRS) sets maximum contribution limits.

- The maximum limits include all contributions made to their HSA including payroll deductions, Employer contributions and post tax contributions. Contributions that roll over from other HSA's do not count towards maximums.
- If age 55 or older, they can contribute up to another \$1,000 annually.

Coverage	2016 HSA Limit
Single Coverage	\$3,350
Family Coverage	\$6,750

HSA Employee Contributions

Employees may:

- Change payroll contribution at least once a month. This is an IRS regulation; not a State or PayFlex rule.
- Access funds as they are deducted from their paycheck and deposited into their account.
- Make a one-time transfer from their IRA. This transfer amount won't be taxed. This amount does count toward their HSA contribution limit for the year.

Note: Carefully evaluate your own personal health and financial situation before deciding on your HSA contributions. Review your health care expenses you've had previously, and what you expect to have in the coming year.

HSA Employer Contributions

Employer Contributions:

- It is up to each agency to determine if they will make an employer contribution to the HSA.
- Employer contributions are tax free and count towards the employee's maximum for the tax year.
- The employer decides the amount and funding frequency.
- The employer may report the contribution as a lump sum or prorated with each pay period.
- Once contributions are posted to the HSA; they belong to the employee.

PayFlex Mobile®

Manage your account 24/7 with the free PayFlex Mobile® Application

Available for iPhone® and iPad® mobile digital devices, as well as Android™ smartphones.

The PayFlex Mobile® app lets employee:

- Manage account funds
- View PayFlex Card® purchases and transactions
- View a list of common eligible expense items
- Use the same username and password as the PayFlex employee website



The iPhone and iPad are trademarks of Apple Inc., registered in the U.S. and other countries. Android is a trademark of Google Inc. Standard text messaging and other rates from your wireless carrier still apply. PayFlex Mobile® is a registered trademark of PayFlex Systems USA, Inc.

HSA Investment Options

Once employee has at least \$1,000 in their HSA they can open an investment account.

- There are a variety of mutual funds available.
- There are no transfer or trading fees and no minimum investment amount per trade request.
- Mutual funds and investments are not FDIC-insured. Invested funds are subject to risks, including changes in the value and the possible loss of the amount you invested.
- They cannot pay for eligible health care expenses directly from their investment account. They must first transfer the funds from their investment account to their HSA.

By transferring funds into an HSA investment account you can potentially benefit from capital appreciation in the value of mutual fund holdings. However, you will also be exposed to a number of risks, including the loss of principal, and you should always read the prospectuses for the mutual funds you intend on purchasing to familiarize yourself with these risks.

Tax Reporting

There are a number of required tax forms for HSA reporting.

- **Form 1099-SA:** reports all account distributions. A distribution from employee's HSA for qualified expenses is not taxable. This form is produced by PayFlex and mailed to the member by end of January.
- **Form 5498-SA:** reports all contributions, both employer and employee, and earned interest. The employee has until mid April to contribute for the previous tax year. This form is produced by PayFlex and mailed in May to the employee for prior year contributions made after 12/31.
- **Form W-2:** reports all employer contributions, including pre-tax payroll deductions. Employer contributions are not considered part of employee's income. This form is produced by the Employer in box 12 with a code of W.
- **Form 8889:** reports all contributions, withdrawals, interest, excess contributions and any withdrawals for non-qualified expenses. This form is completed by the employee and submitted with tax filing.

Enrollment and Funding HSAs

Customer Identification Process (CIP)

- Section 326 of USA Patriot Act requires all banks to verify the identity of anyone who tries to open an account.
 - Name
 - Date of Birth
 - Social Security Number
 - Address
- If an employee does not pass, they are notified of the requirements needed to open the account.
 - First letter mailed within 3 days
 - If no response within 30 days, second letter mailed
 - If no response within 60 days, final notice sent
 - If not response within 90 days of initial notice, account is closed and funds are returned to you the employer

Enrollment & On-Going Eligibility

Enrollment

- HSA Enrollment will be reported by the State to PayFlex on your behalf several weeks before 1/1/16 effective date to allow for mailing of debit cards and CIP.
- Once enrollment file is processed, members will be verified by CIP
- Once employee pass CIP, the HSA is approved to open on effective date and employee may begin to receive contributions.
- The Debit Card is issued once employee passes CIP.
- The State will report weekly eligibility updates to PayFlex on your behalf.
- Encourage employees who move between employers to contact PayFlex for directions on consolidating their HSAs.

Funding Files

Funding Files

- In order for PayFlex to post payroll contributions or Employer contributions, a funding file is required by each employer. There are two options of files.
 - The **File Feed Guide** is a programmable file layout to report payroll deductions and employer funding if you are reporting them.
 - The **Macro Funding File** is a simple document for smaller population of HSAs, but is manual.
 - Both file options require secure access to PayFlex's website and you will be guided on this process as well as how to complete the files.
- Each funding file would be uploaded to PayFlex according to your pay schedule reporting the payroll deductions from that pay check and any employer contributions if applicable.

Funding

Funding

- With the upload of each funding file by you the Employer, PayFlex will pull the total amount of the file from your designated bank.
- PayFlex will post funds to the open HSA's
- PayFlex will work with you on obtaining your bank details and requires a completed ACH Pull Agreement which includes:
 - Bank Name
 - Bank Address
 - Routing Number
 - Account Name and Number
 - Type of Account
- Funds are only pulled from your bank for those employees with an open HSA. Funds are queued if employee is in CIP and posted if passes during the 90 day process. If not, funds are pushed back to your bank.

Website

Your Employee Website - www.stateoftn.payflexdirect.com

Before you enroll, you can view:

- **My resources:** educational materials, planning tools, forms and IRS publications.
- **Eligible expense items:** general list of eligible expenses.
- **Savings calculator:** estimate your expenses, help plan your contribution/s.
- **Frequently asked questions:** understand more about each account, and the PayFlex Card®.
- **Digital library:** learn more about PayFlex accounts and how they work.

[legislative news](#)[my resources](#)[common eligible expense items](#)[savings calculator](#)[faqs](#)

Welcome to PayFlex®

RETURNING USERS PLEASE LOGIN BELOW.

If you are new to PayFlex, click **REGISTER NOW** to set up your online account.

[REGISTER NOW](#)

Username

Password

[Forgot Your Password?](#)

[LOGIN](#)

Welcome!

*Learn about your new
**HealthSavings CDHP and
manage your HSA here.***

Learn more about HSAs...

- ALEX: Your virtual adviser
- Video: HSA Benefits
- Video: PayFlex Mobile® App

[About PayFlex®](#)[My Resources](#)[FAQs](#)[Contact Us](#)[Privacy & Compliance](#)[Terms of Use](#)

© 2012 PayFlex Systems USA, Inc.
All Rights Reserved.

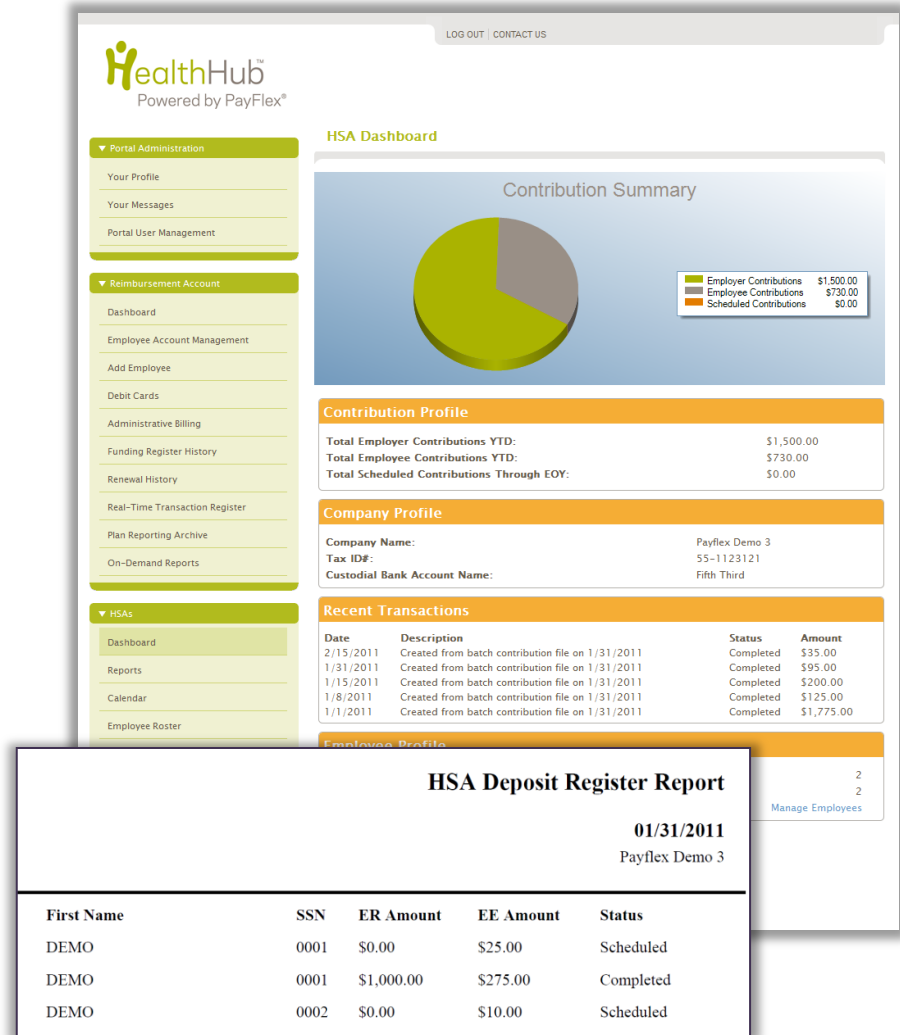
Your Employer Portal -

payflexdirect.com/employer/employerlogin.aspx

- **Account Status report**
- **Contribution Summary Report**
- **Monthly Account Dashboard Report**
 - Program Summary
 - Account Balances
 - Contributions
 - Expense Analysis
 - Investment Analysis
 - Spender/Saver Analysis

Employer Portal – Visibility into your program

- Access a summary of your program via the HSA Dashboard:
 - ✓ Summary of recent transaction activity
 - ✓ Year-to-date contribution summaries
 - ✓ Employee account status
- View participant information and account status
- View real-time contribution information
 - ✓ Completed, pending, scheduled, queued
- Access a calendar outlining all contribution posting dates
- Receive system generated messages via the online message center (e.g. reminders for reports available to download)
- Request and download on-demand reports in PDF or CSV format, including:
 - ✓ HSA Deposit Register
 - ✓ Accounts Opened and Closed Report
 - ✓ Employer Account Statement





PAYFLEX®

PARTNERS
FOR HEALTH

We're here to
help!

Visit stateoftn.payflexdirect.com,
click **Contact Us**. Or call us at
855.288.7345

Representatives are available
Monday – Friday, 7 a.m. – 7 p.m.
Saturday, 9 a.m. – 2 p.m.

All times are Central.

Disclaimer

This material is for informational purposes only. The information describes the Flexible Spending Account (“FSA”) in general terms. FSA plans are governed by the rules of Section 125 of the Internal Revenue Code and will be administered in accordance with those rules. Estimate fund amounts carefully. Unused funds may be forfeited. Eligible expenses may vary from employer to employer. In case of a conflict between your plan documents and the information in this material, the plan documents will govern. Please refer to your employer’s Summary Plan Description (“SPD”) for more information about your covered benefits.

There may be fees associated with an HSA. These are the same types of fees you may pay for checking account transactions. Please see the HSA fee schedule in your HSA enrollment materials for more information. Investment services are independently offered through a third-party financial institution. The HSA investment account is an optional, self-directed service. We do not provide investment advice for HSA investment account participants. You are solely responsible for any investment account decisions you make. Mutual funds and brokerage investments are not FDIC-insured and are subject to investment risk, including fluctuations in value and the possible loss of the principal amount invested. The prospectus describes the funds’ investment objectives and strategies, their fees and expenses, and the risks inherent to investing in each fund. Investors should always read the prospectus carefully before making any investment decision. System response and account access times may vary due to a variety of factors, including trading volumes, market conditions, system performance and other factors.

The iPhone and iPad are trademarks of Apple Inc., registered in the U.S. and other countries. Android is a trademark of Google Inc. This material is for informational purposes only. MasterCard® is a registered trademark of MasterCard International Incorporated. Information is believed to be accurate as of the production date; however, it is subject to change. For more information about PayFlex, go to **PayFlex.com**.

Financial Sanctions Exclusions. If benefits or reimbursement provided by this Agreement violate or will violate any economic or trade sanctions, the benefits are immediately considered invalid. PayFlex Systems USA, Inc. cannot make payments for claims or services if it violates a financial sanction regulation. This includes sanctions related to a blocked person or a country under sanction by the United States, unless permitted under a written Office of Foreign Asset Control (OFAC) license.